# LATIN AMERICAN OUTLOOK: PLANTING IN GOOD TIMES?

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of Latin American Chief Executives
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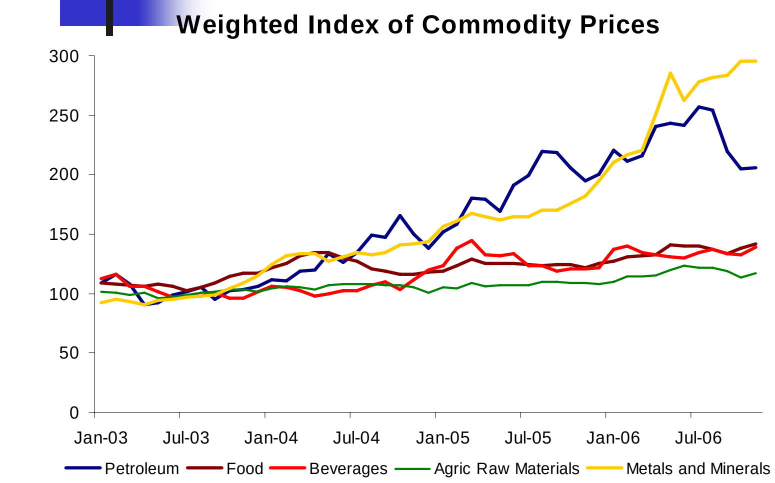
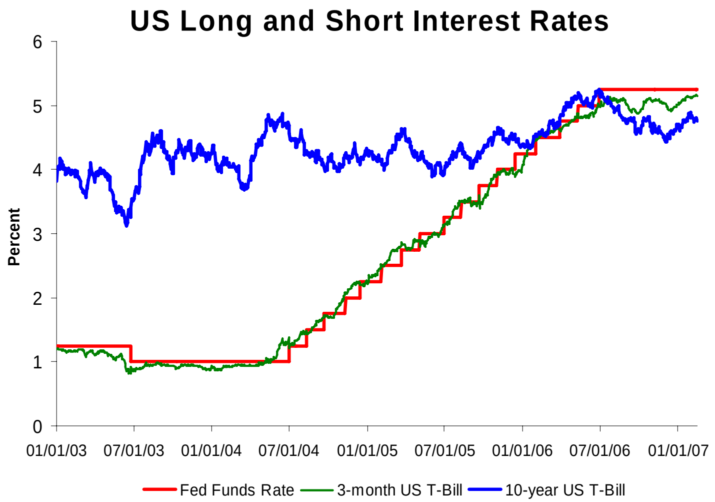
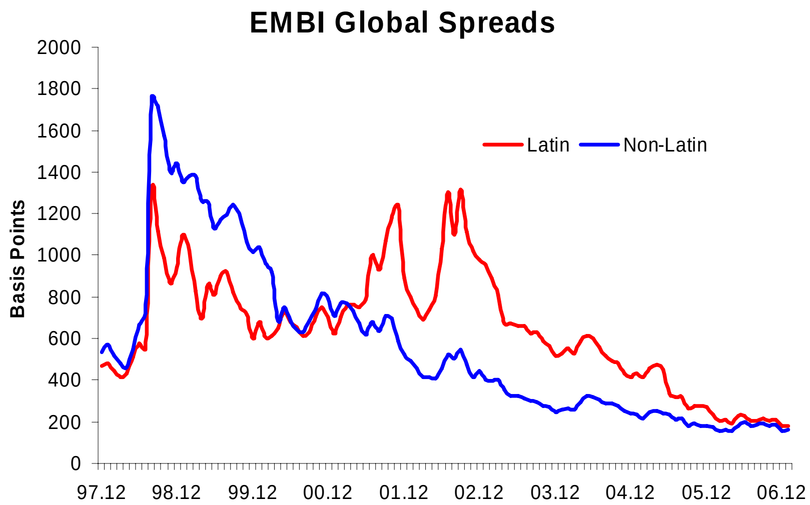
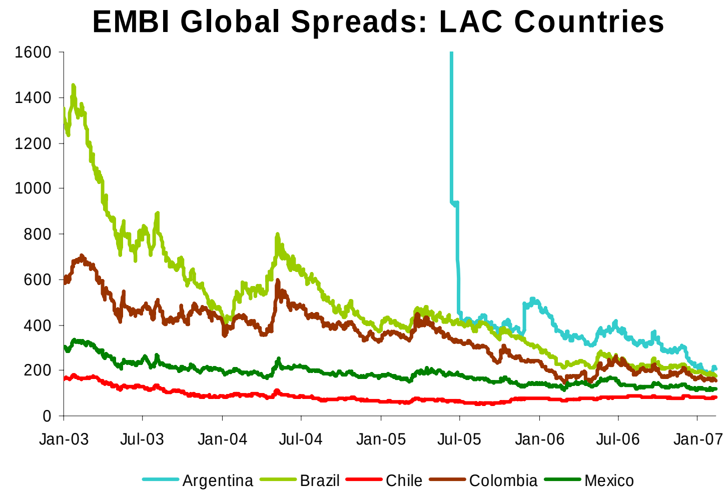
Office of the Chief Economist
Latin America & the Caribbean Region
The World Bank

# A Supportive External Environment



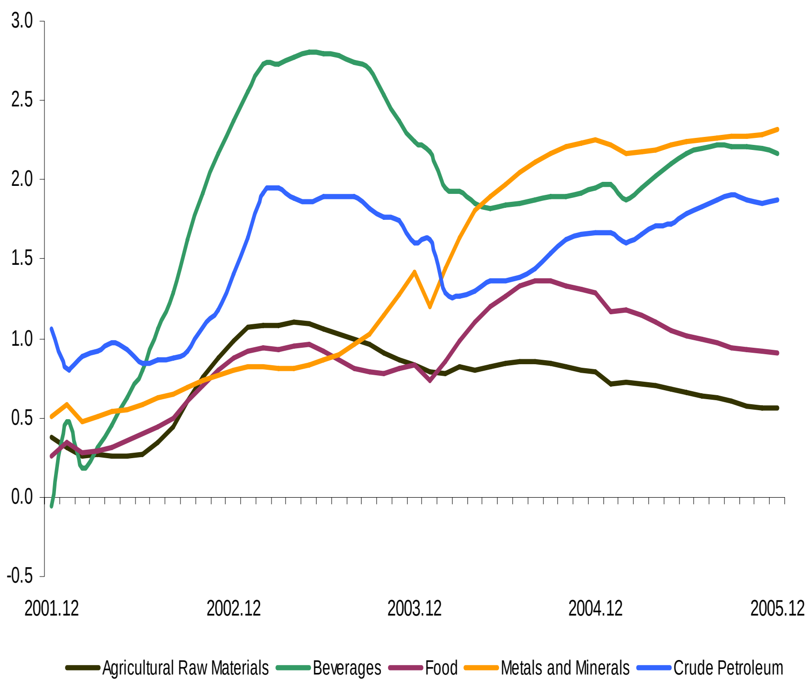



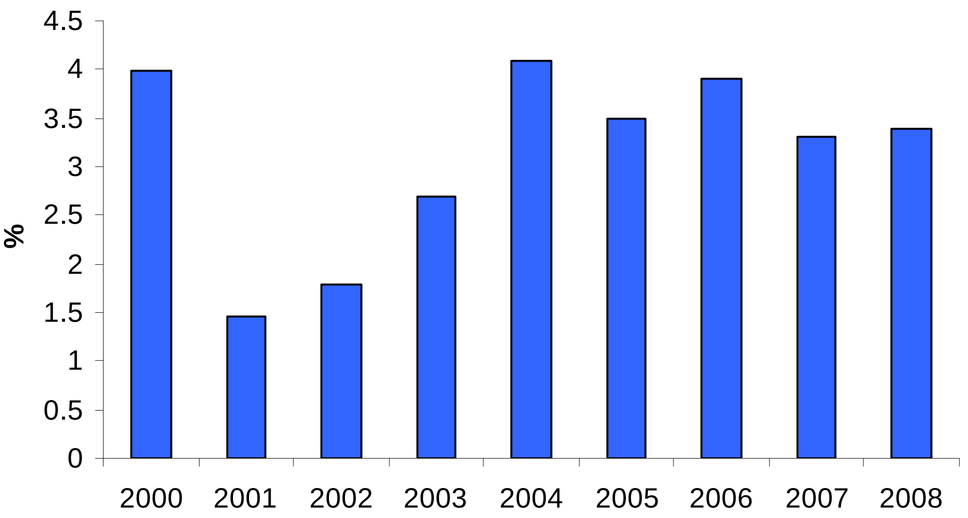
# ...likely to last for a while, though with some downwards risks

Industrial production in China vs. World commodity prices indices



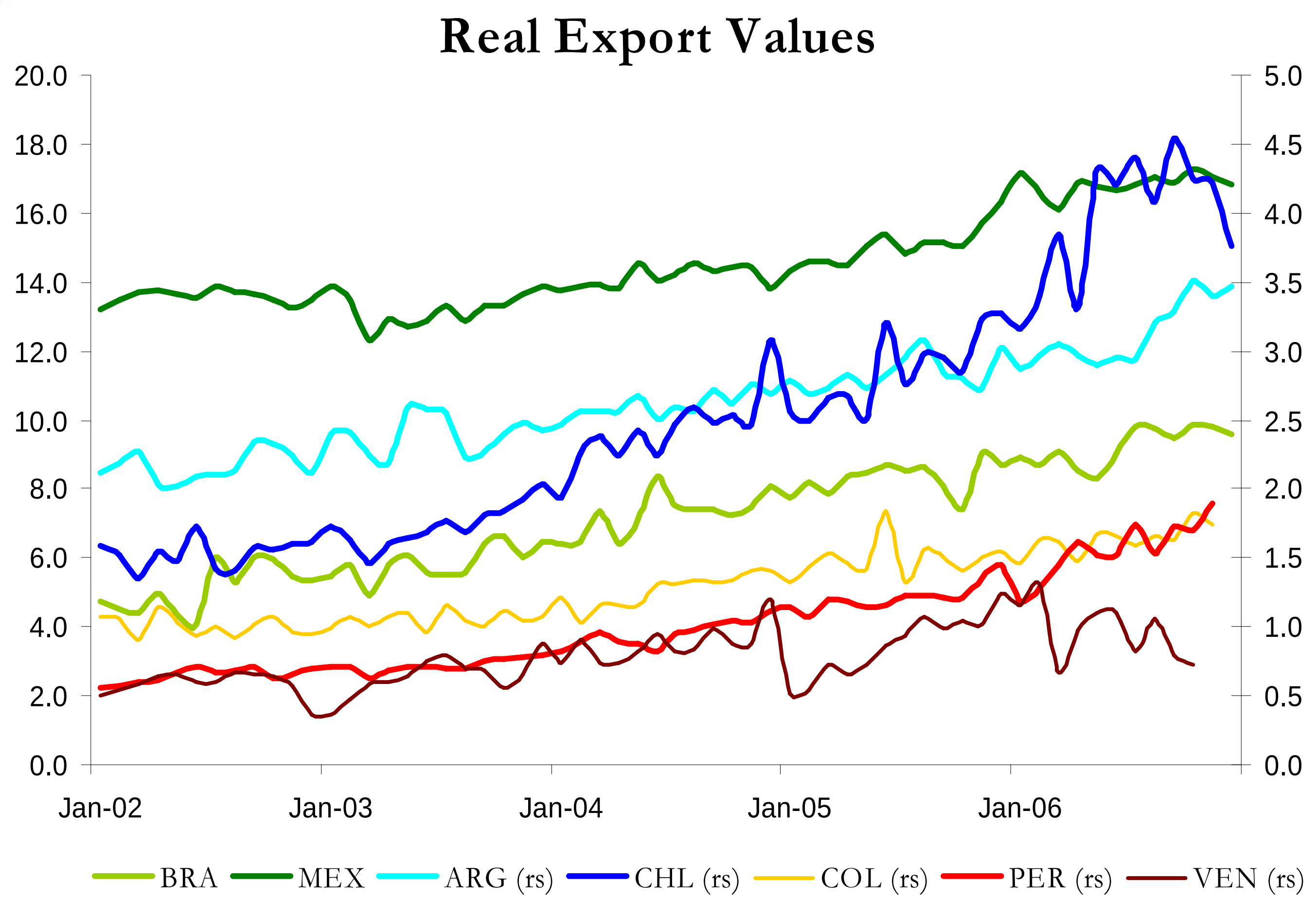

Source: Perry, Lederman and Olarreaga (2006)

Global growth



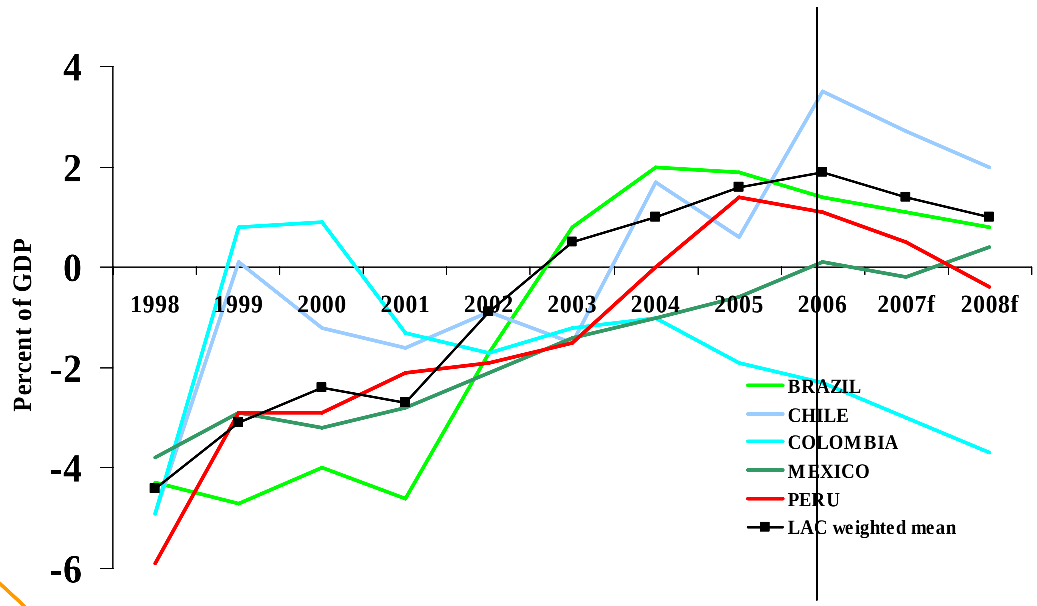

Source: Consensus Forecast, January 2007

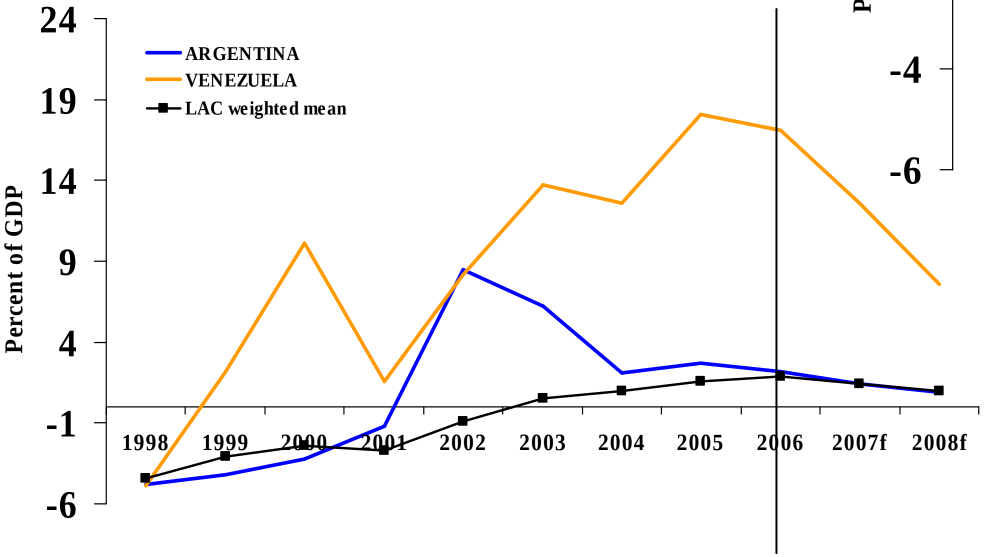
# Real Exports Continue to Perform Well




Export values in billions of US$ at 2000 prices (deflated by the US wholesale price index from IMF IFS).
Data from domestic sources via Haver database.

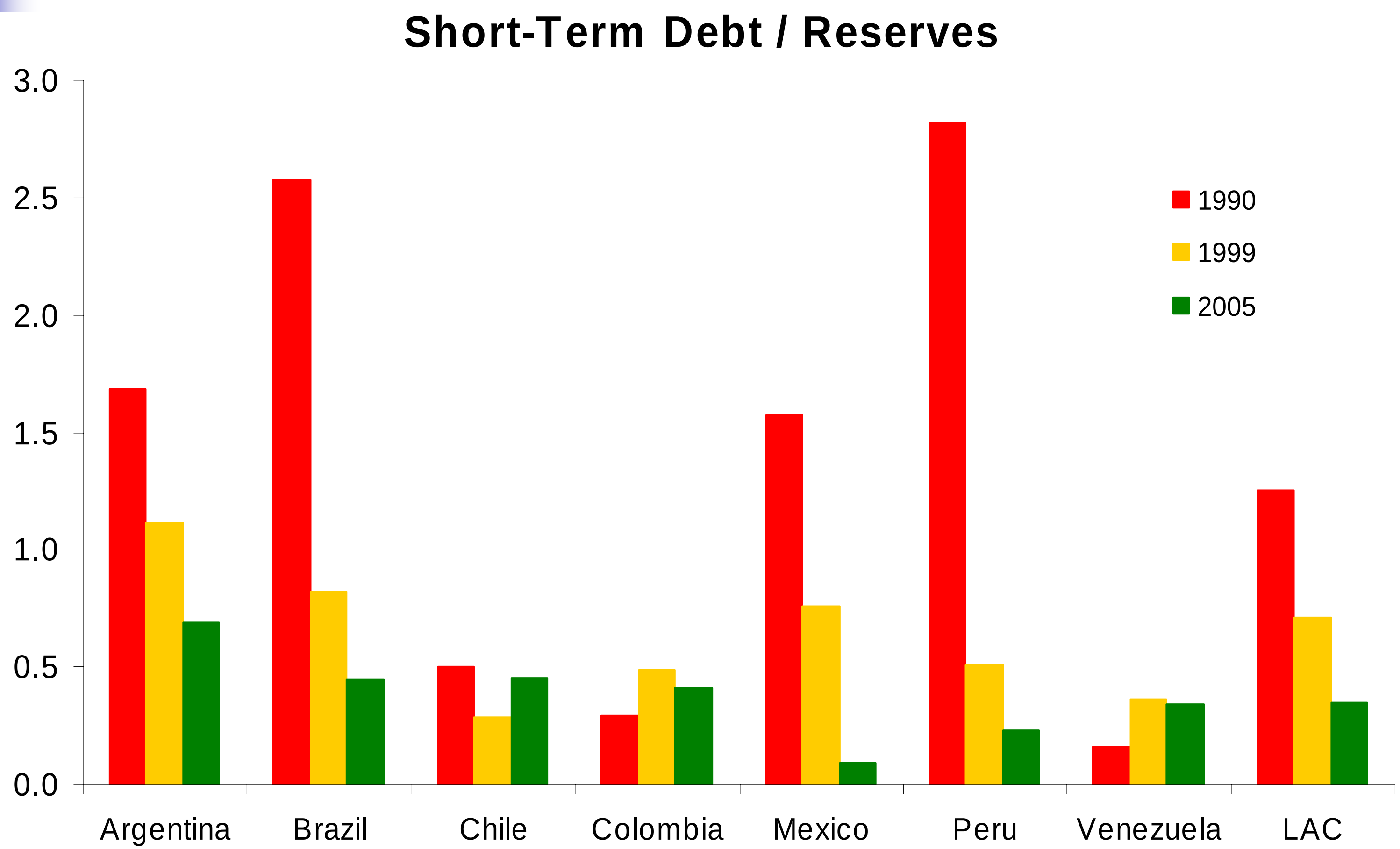
# Current Account Balances still Healthy



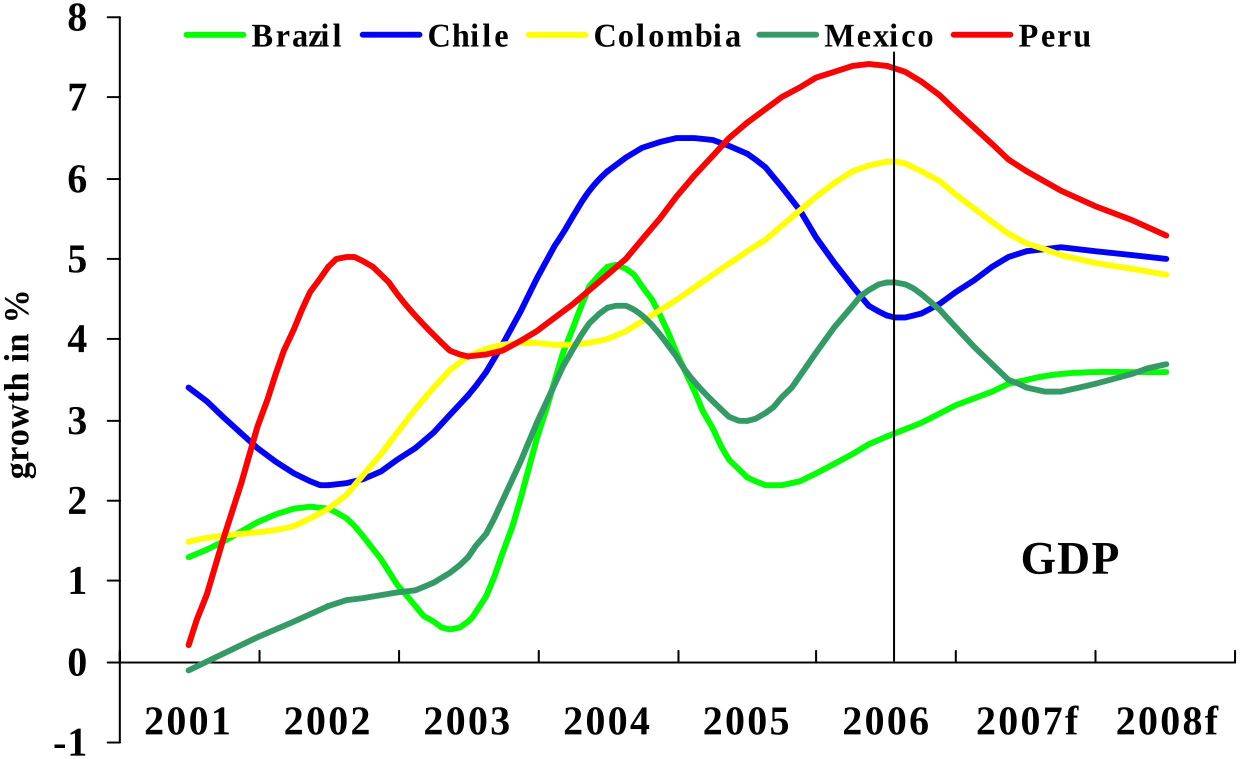

Source: DECPG, Consensus Forecast, January 2007

# External Liquidity is High



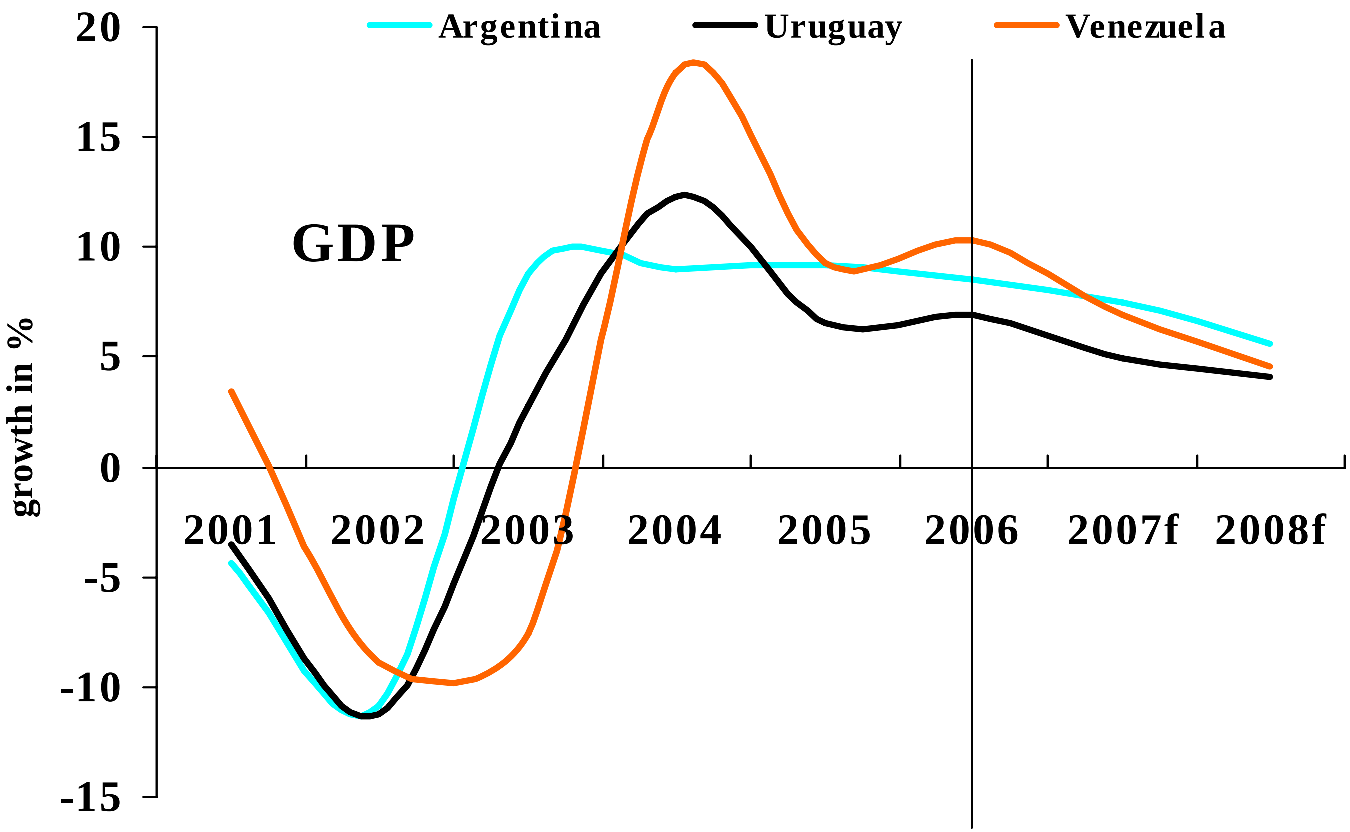

Source: GDF.

# Domestic Economic Activity: Slowing down? Market Forecasts..




Source: Consensus Forecast, July 2007.

# Domestic Economic Activity: Recoveries cooling off? Forecasts…



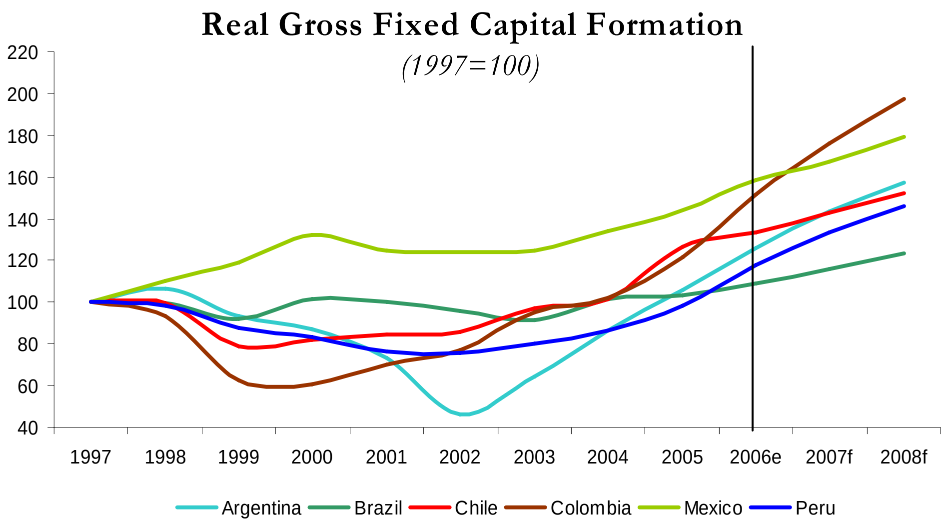

Source: Consensus Forecast, January 2007.

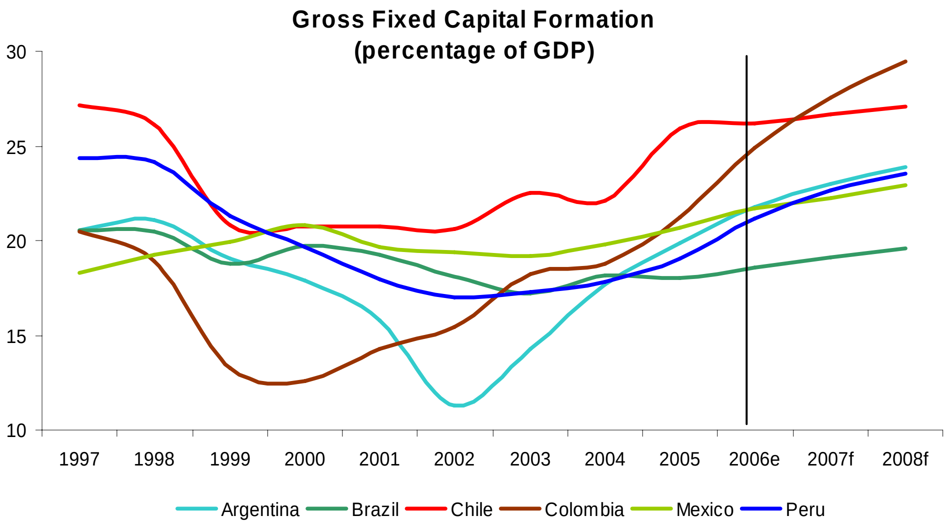
# Market Forecasts have underestimated actual GDP growth in the LAC region

| | 2005 | | 2006 | | 2007 |
|---|---|---|---|---|---|
| Country | Forecast | Actual | Forecast | Actual | Forecast |
| Argentina | 5.1 | 9.2 | 5.9 | 8.5 | 7.5 |
| Brazil | 3.7 | 2.3 | 3.4 | 2.8 | 3.5 |
| Chile | 5.4 | 6.3 | 5.5 | 4.3 | 5.1 |
| Colombia | 3.8 | 5.2 | 4.2 | 6.2 | 5.3 |
| Ecuador | 3.4 | 4.7 | 3.3 | 4.5 | 3.6 |
| Mexico | 3.7 | 3 | 3.5 | 4.7 | 3.5 |
| Peru | 4.2 | 6.4 | 4.8 | 7.4 | 6.2 |
| Uruguay | 4.8 | 6.8 | 4.3 | 6.9 | 5.1 |
| Venezuela, RB | 4.6 | 10.3 | 6.4 | 10.3 | 6.5 |
| Latin America | 4.1 | 4.3 | 4.0 | 5.0 | 4.4 |

Source: Consensus Forecasts, Various Issues

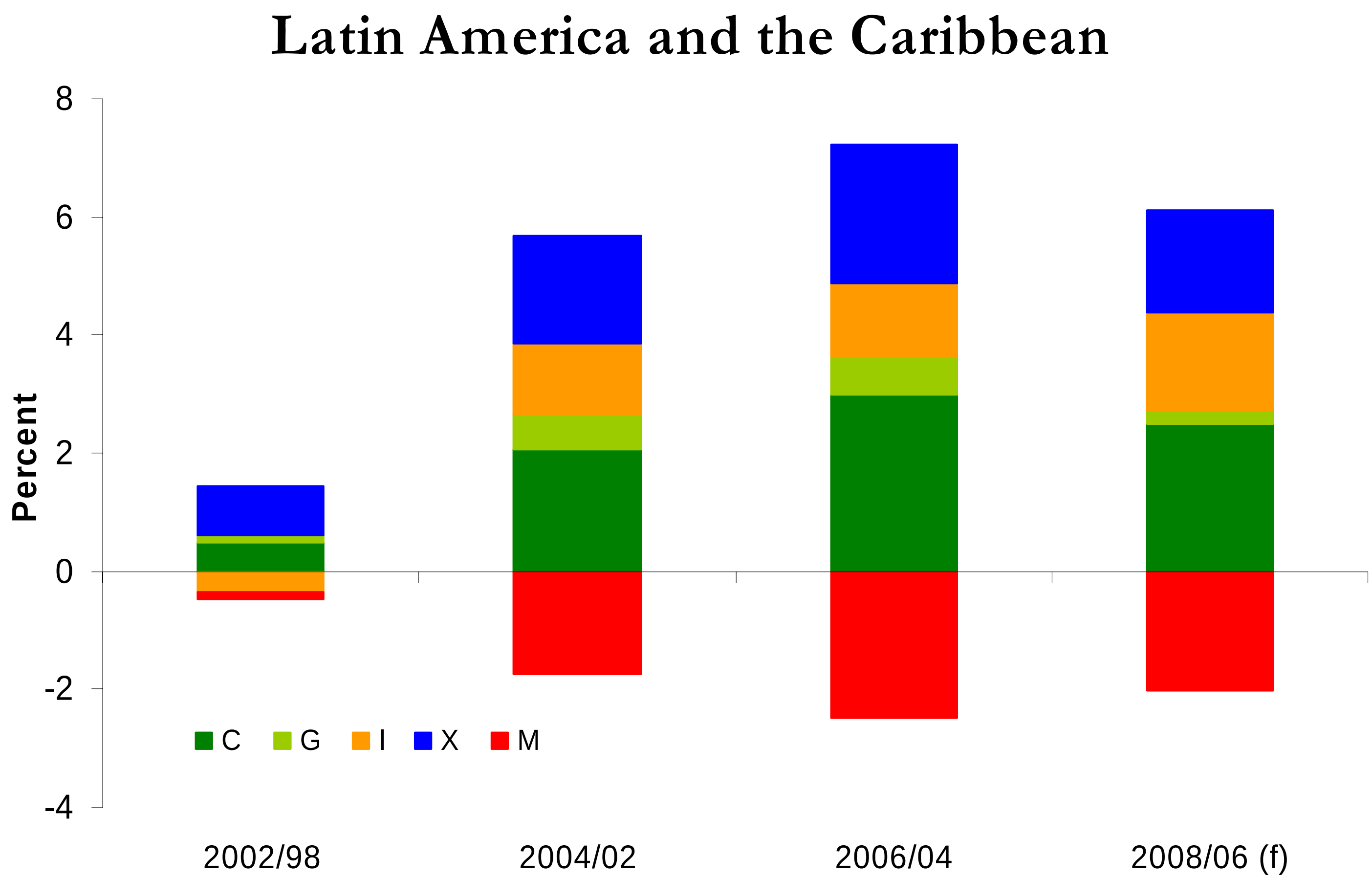
# Investment levels continue to recover




Source: Consensus Forecasts, January 2007

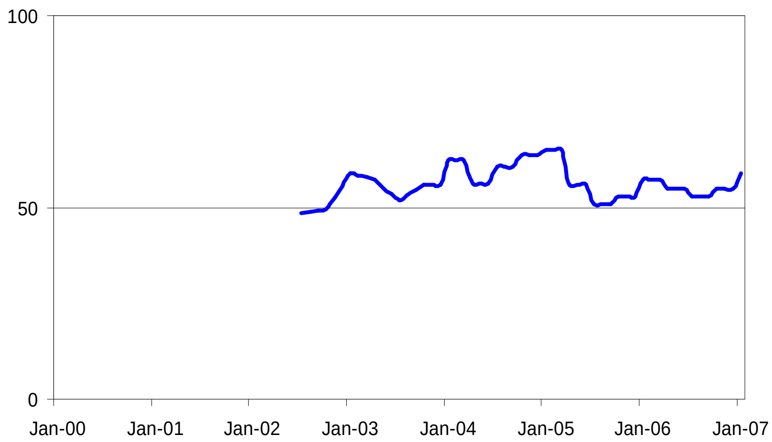
# From export-led to domestic demand driven growth



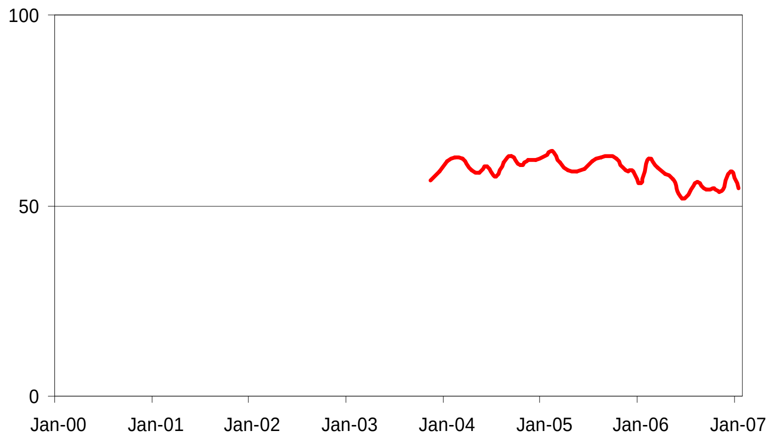

Source: Staff calculations based on data from WDI&GDF database, DECPG and Consensus Forecasts

# Business Confidence: Positive in most Countries

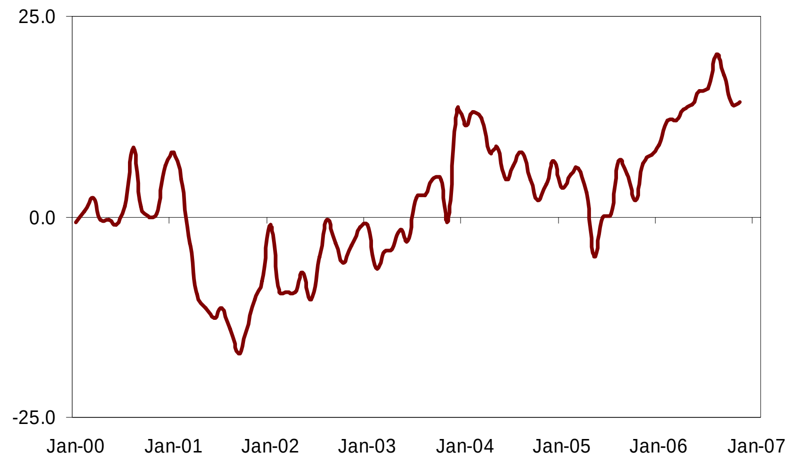
**BRAZIL: Business Confidence Index**




**CHILE: Business Confidence Index**



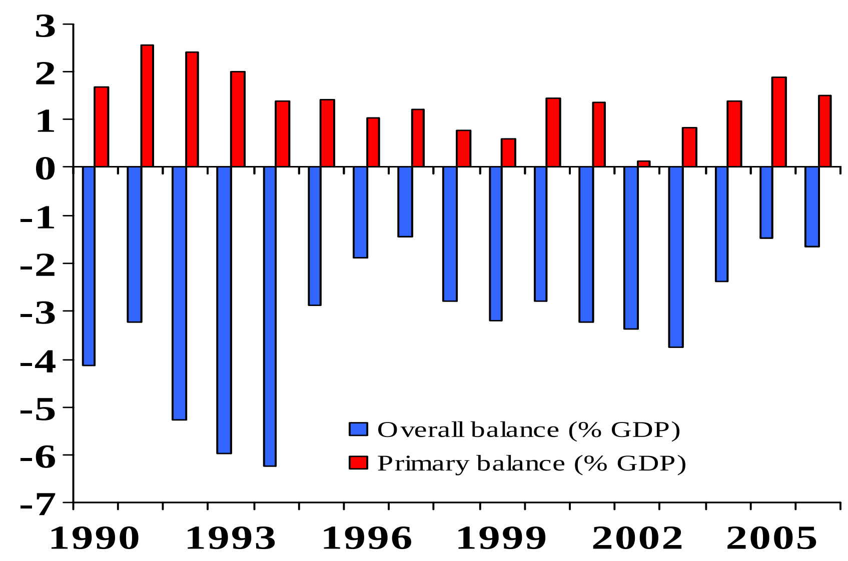

**Colombia: Industrial Business Confidence Index**



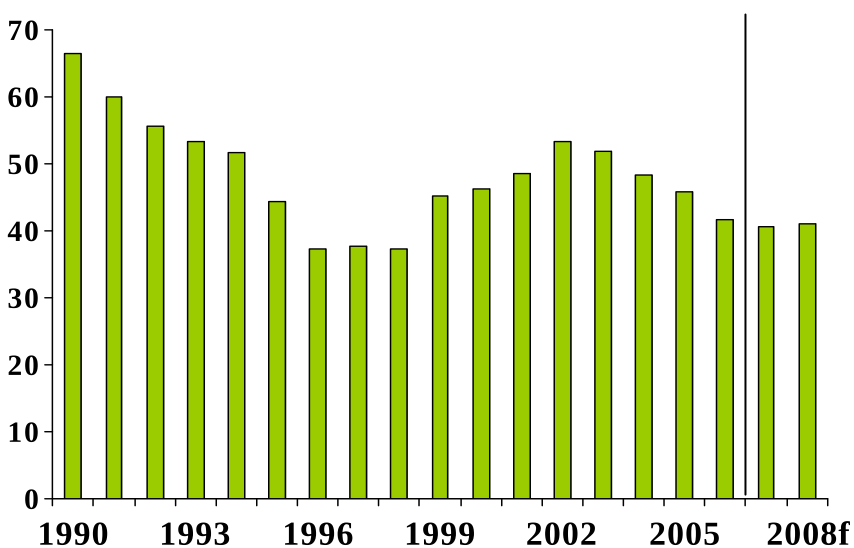

Source: ICARE, CNI, FEDESARROLLO

# A remaining concern? Public Debt and Fiscal Balances

Fiscal Balances/GDP

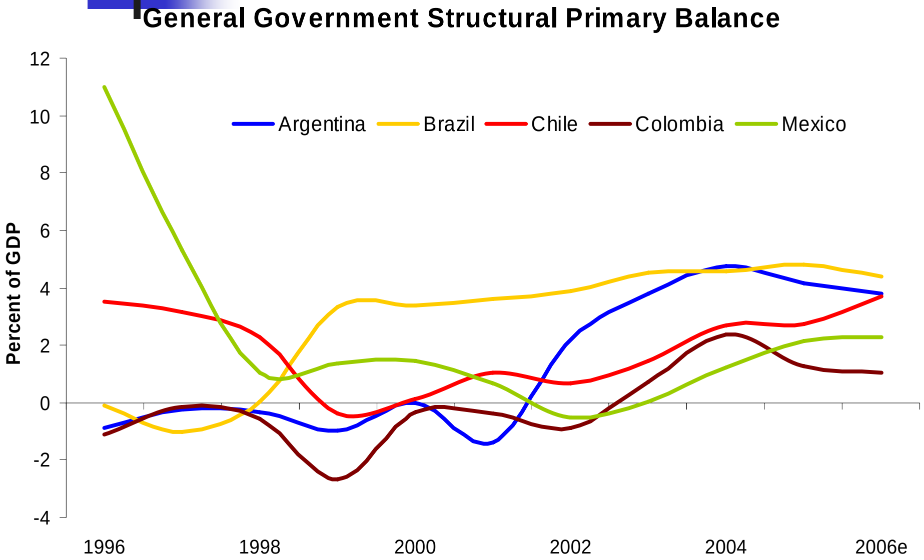


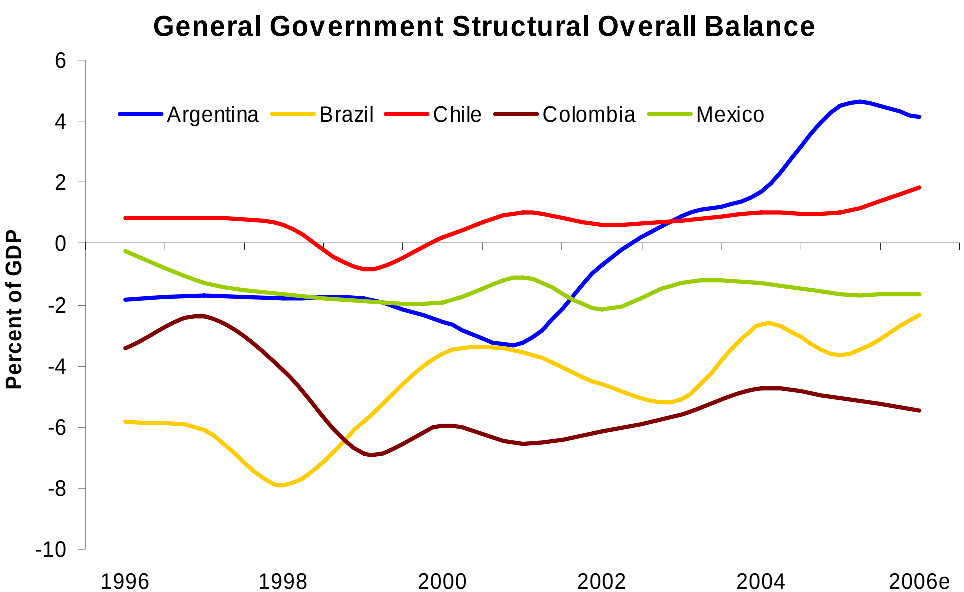

Public Debt/GDP




Source: FITCH, General Government Statistics.

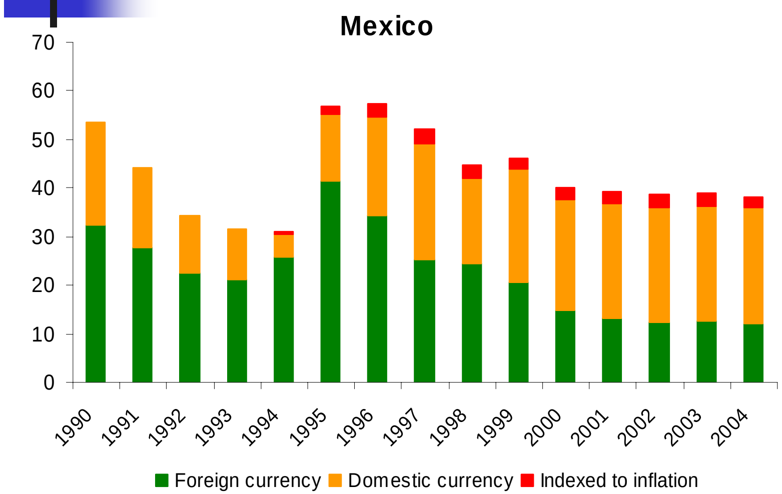
# Structural primary balances: improving, but strong enough?

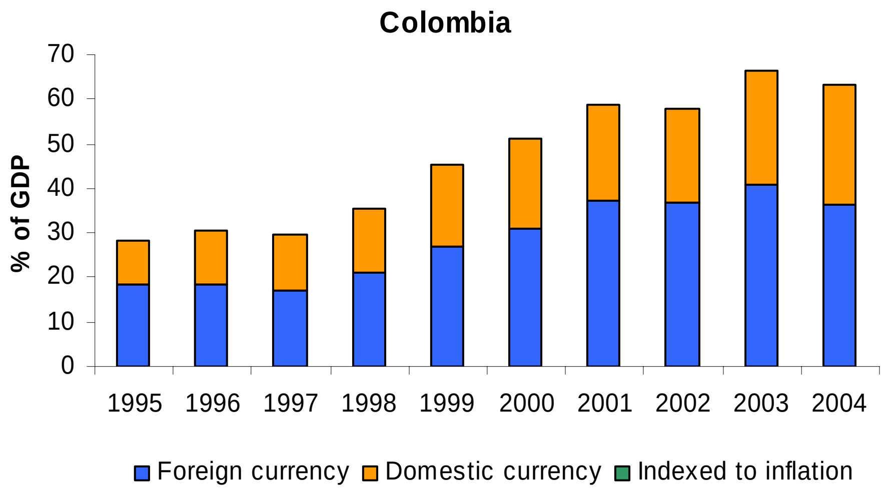


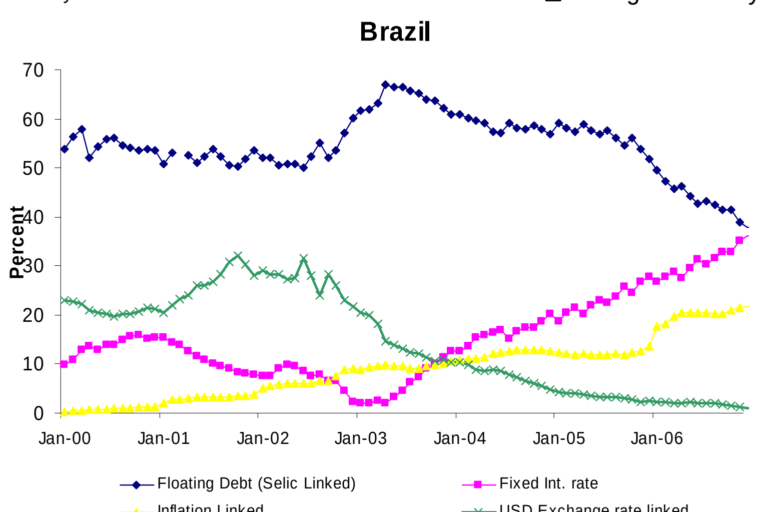




Source: WEO, Staff calculations.

# Reducing Vulnerabilities: Currency Risk




Source: Cowan et al. (2006), Bloomberg

# Financial Sector Strength

- Banks:
  - Better capitalized and regulated banks in most countries
  - High liquidity, low non performing loans and high coverage of provisions
  - However, unchecked consumer credit growth in some countries?
- Capital Markets:
  - Fast development of domestic bond markets
  - High growth of derivative markets in some countries
  - Is regulation keeping apace?

# Some Final Concerns

- Slow and uneven progress in Structural Reform, Investment Climate, Infrastructure, Quality of Education, Technological Development
- Sharp political divisions among and within countries: need to advance faster on equity issues?

END